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The Smart Investor's
Guide
to America's
Most Profitable
Companies

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My Buy-Out Special: Taseko Mines

Taseko Mines has a proven strategy in place to make lots of money for its shareholders without ever having to worry about taking gold, silver, copper or anything else out of the ground. The two principals, Bob Hunter and Bob Dickinson, are expert at drilling, establishing value, and then selling to the highest bidder. And Taseko should be their biggest success story yet.

Taseko controls one of the largest copper and gold deposits in the world—the Fish Lake Property. It is actively marketing the property for sale to a major mining company. Since major mining companies always need to replace dwindling reserves, I expect Taseko to be bought out in the next 6-12 months at a nice premium. I don't want you to miss this one.

Unlike most mining companies which seek to discover, develop, construct and operate mines, Taseko has chosen to focus only on the development of high quality properties. This is a niche in the mining industry.

Taseko Mines is run by a unique entrepreneurial team. Bob Hunter and Bob Dickinson and their management group is a collection of very talented individuals. They seek out properties with large exploration potential, invest their own money, and then do the geological and technical work (drilling out reserves, metallurgical studies, engineering reports and beginning environmental work) that add value to the property by expanding the known reserves and basically taking a lot of the risk out of the mining property.

They then sell the property to a major mining company which has the financial clout to build the mine and the operating expertise to run it. They don't pretend to be something they're not, and they're very good at what they do.

The Big Guns Need Reserves. Replacing ore reserves is very important for mining companies, because mine lives are generally 10 years or less. If they don't replace their reserves, they're out of business. For whatever reason, most mining companies (except for American Barrick, Newmont Mining and Freeport Copper) have been extremely inefficient at exploration. So a prize property like Fish Lake should be bid on by many of the majors.

On average, it costs major mining companies over \$110 per oz. to develop new gold reserves. It is more cost effective for them to buy reserves from junior companies or entrepreneurs like Taseko at \$30-\$50 per reserve oz. And that is exactly what they do.

The Hunter/Dickinson team has already successfully developed and sold North American Metals to Homestake for \$70 million and the Mt. Milligan deposit to Placer Dome for \$250 million. Taseko is their next business deal.

Taseko's Fish Lake deposit is located in south central British Columbia. The property had been lying dormant since the late 1970s. Taseko took control in March 1991 and cut a deal with Cominco, which had the current option on the property. Depending upon the ultimate buy-out price, Cominco will receive a sliding-scale purchase price which is capped at \$48 million.

Buy-out on the Horizon. There are already several major mining companies interested in owning this property. They need it to replace reserves and to demonstrate a growth path for their own companies.

I have no way to predict when a buy-out might occur. I only know the majors are circling in and that the Taseko management, being large shareholders themselves, will continue to add value and expect to be paid for their excellent work.

Continental Gold sold for \$36/oz. of gold reserve. Fairbanks is being bought for \$40/oz. If we assume only 8 million minable ounces at Fish Lake at \$35/oz, then this equals \$25 (U.S.) per share for Taseko stockholders on a buy-out. And that's with no value for copper. **This is a strong buy.** I expect a \$35-\$50 price tag.

Furthermore, Taskeo's Fish Lake property is much bigger, richer and will be easier to mine than the Mt. Milligan property (making it an even better deal). How much better is it? Here goes: Taseko has 40% more ore tonnage, 60% better copper grade (richness), 23% better grade in gold. It has 135% more pounds of copper (4 billion pounds) and 82% more gold (10 million ounces). The sulfide content (a costly waste element) is 70% less than Mt. Milligan. And the Work Index (a technical ratio for how much power, energy and crushing is needed to grind the rock) is 50% less for Taseko. In other words, it will be 50% less expensive to crush it (usually a major expense in mining).

If Mt. Milligan went for \$218 million, Taseko's property is worth somewhere between \$275-\$300 million. This translates into a per share buy-out between \$25-\$28. That's triple its current price. The downside? Not much. You've got a tremendous asset in the ground, currently selling at a 70% discount compared to the last two major mining acquisitions in North America. You can't pass this up. You have to buy this stock.

NOTE: My investment management firm (Kenneth J. Gerbino & Co.) has recently filed a 13D on this stock. That means we now own over 6% of all the outstanding shares, and we are required to report it. We're putting our money where our mouth is.

Taseko's Known Reserves Have Soared. When Hunter/Dickinson first took over Taseko, Fish Lake had known reserves of 240 million tons containing 3.6 million oz. gold and 1 billion lbs. of copper. Since then, their own drill crews have increased the property reserves to over 600 million tons containing over 10 million oz. of gold and 4 billion lbs. of copper. That's a lot of value being added. It also makes Taseko the 5th largest gold-copper deposit in the world.

On a world scale, this property is large enough to make major mining companies take notice.

When the Hunter/Dickinson management team decided to develop the Fish Lake property and sell it to a major mining company, they evaluated it as follows: They wanted to find the best section of the property, drill it, and prove up the richest and largest amount of copper and gold they could, while spending the least amount of time and money on expensive developmental and exploration drilling. The next step was to package it, do extensive metallurgical, engineering, geological and pre-environmental studies and put it up for sale to major companies. This is what they did.

The major companies acknowledged the deposit to be truly world class and one of the best they've seen, but did not offer enough money. Why not? Because they were told that half the deposit (the deeper section) would not be minable for at least 10 years, since it

would take that long to mine the ore above it. It was just too much money to pay for a payoff that was that far away. Not a bad argument and not a bad reason.

Anyone else would have taken the money offered and run, and we probably would have received about \$18 a share for the stock.

Waste Rock Turns to Ore. But Hunter and Dickinson had a better idea. The property has plenty of copper and gold near the surface that they never bothered to classify as economic ore. These sections are not as rich or as profitable as the core zone that they had developed, but are loaded with additional copper and gold. This is crucial data.

Taseko had access to the past drill holes (from Cominco, the prior owner) in the area around the plug. And guess what? It's very valuable rock. Not as valuable as the plug, but valuable. In fact, the material around the plug that Taseko was categorizing as "waste" is actually of higher grade (richness) than half the major large open-pit copper mines in Canada.

Hunter and Dickinson recently flew to London, raised C\$7 million with another C\$7 million coming later. They'll use the money to drill out and prove up an even larger deposit around the plug. With the waste factor eliminated, the deposit is enlarged significantly.

By my calculations, Taseko is going to prove up at least a billion tons of ore (a 60% increase). This would expand the ore reserves dramatically and will make major mining companies take a very deep breath. This will become a gigantic deposit.

Not only are they going to have an incredible deposit with a long life and a massive rich plug, but they're going to re-categorize most of the near-surface waste material as ore. With this news, and Taseko now listed on NASDAQ, many institutions will be jumping on board. I hope you do so as well.

My target is still \$35-\$50. I remember many years ago, begging people to buy Freeport McMoRan Copper & Gold at under \$2-1/4 (split-adjusted). It's now over \$20. Taseko will be a similar play.

Stock symbol: (OTC: TKOCF)